

Financial Status Report

Prepared by the Finance Department










January 31, 2017

This report summarizes the City of Carlsbad's General Fund revenues and expenditures through January 31, 2017. It compares revenues and expenditures for the first seven months of Fiscal Year 2016-17 and Fiscal Year 2015-16. In addition, the financial status of the Water and Wastewater Enterprises are included. This report is for internal use only. The figures presented here are unaudited and have not been prepared in accordance with Generally Accepted Accounting Principles (GAAP).

San Diego County Economic Indicators

Carlsbad's revenue trends appear to mirror the San Diego region in general. Therefore, on a monthly basis, this report will provide the most recent economic data for the area: The San Diego County Economic Indicators. We believe this information provides the reader with some insight on the direction of the local economy.

November 2016  Index of Leading Economic Indicators Up 0.30%	 Local Stock Prices Down 0.34%  Local Consumer Confidence Up 0.98%
 Building Permits Up 0.81%	 Help Wanted Advertising Down 0.33%
 Unemployment Insurance Up 0.62%	 National Economy No Change

Source: University of San Diego School of Business Administration, *USD Index of Leading Economic Indicators*, January 5, 2017.

According to the USD Index of Leading Economic Indicators Report:

The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County rose 0.3 percent in November. Solid gains were posted by residential units authorized by building permits, initial claims for unemployment insurance, and consumer confidence. On the downside, there were small declines in local stock prices and help wanted advertising. The outlook for the national economy was unchanged.

November's increase in the USD Index was the strongest since April and would have been even stronger except for an anomaly in how the local stock prices are calculated. But the gain was only the second since April, compared to four down months and an unchanged one. While November's increase is welcomed news, more is needed in the coming months to adjust the outlook, which is currently for a positive but slower growing local economy in 2017. Wage and salary employment is expected to increase by about 25,000 in the county during the year, which is less than what the region has been experiencing in the last few years. Because of the slower rate of job growth, the local unemployment rate is expected to increase slightly to 4.6 percent from the current 4.3 percent. Higher interest rates and affordability issues will limit housing prices, which are expected to increase by low single digits in the coming year.

November is usually the worst month of the year for residential units authorized by building permits, but strong numbers for multi-family units authorized pushed the component to a second straight gain. The labor market variables continued to be mixed. November is usually the best month of the year for initial claims for unemployment insurance, but the component was positive, even with the seasonal adjustment. Help wanted advertising moved in the opposite direction and has now declined for eight straight months. The net result was that the seasonally adjusted local unemployment rate was 4.3 percent in November, which was down from 4.8 percent in October and down from 5.0 percent in November 2015. Consumer confidence has risen sharply since the election and has increased for five consecutive months. Local stock prices were considered down in November even though they were higher at the end of the month than at the beginning. This is because the value of stock prices for a month is calculated by taking the average of all the daily closing values of the local stock index for that month. Strength at the beginning of October and weakness at the beginning of November led to the odd result. Also, while the broader market averages were reaching record highs after the election, local stock prices are more than seven percent below the high reached on September 22. Although there was no change in the national Index of Leading Economic Indicators, the national economic news remains positive, with 178,000 jobs added during November and the national unemployment rate falling to 4.6 percent. The third and final estimate for GDP growth for the third quarter was good, coming in at 3.5 percent, compared to the second estimate of 3.2 percent and the "advance" estimate of 2.9 percent.¹

General Fund Revenues



Property Taxes (\$34.9 million) – In December, the city began to see a much larger flow of property tax revenues. Property taxes reflect an 8 percent increase over Fiscal Year 2015-16. According to the County of San Diego Assessor's Office, assessed values in Carlsbad have increased by 5.6 percent for Fiscal Year 2016-17. This is the fourth year in a row that Carlsbad's assessed values have increased from year to year, and in line with assessed value increases with other cities in San Diego County for the year. This reflects

continued improvement in the housing market and new construction. The increase in this year's assessed values was due to a large increase in the assessed value of residential properties in the city; the city saw smaller increases in commercial and industrial property values for the year. This is the second year in a row since the Great Recession ended that the city saw increases in assessed values in all three property components (residential, commercial and industrial).

¹ University of San Diego School of Business Administration, *USD Index of Leading Economic Indicators Up in November*, January 5, 2017.

The primary reasons that property taxes for the first seven months of the fiscal year have increased by 8 percent as compared to the prior fiscal year are:

- Current taxes are up by \$2.1 million or 7.3 percent due to an increase in assessed values, the closure of the former Infrastructure Financing District, and timing differences.
- Aircraft taxes are down up \$71,000 or 4.3 percent due to timing differences.
- Supplemental taxes are up by \$106,000 due to an increase in property resales and new construction.
- Payments for previous years' taxes are down by \$83,000 due to a decrease in the collection of past due tax bills.
- Unitary taxes are down by \$8,000 due to timing differences.
- Property taxes received from the former redevelopment areas (both the Village and South Coastal Carlsbad areas) are up by \$377,000 due to construction of the desalination plant in the former South Coastal Carlsbad Redevelopment Area (SCCRA).



Sales Taxes (\$19.9 million) – For the first seven months of the fiscal year, sales tax revenues are \$3.8 million (or 24 percent) higher than the same time period in the previous fiscal year. Sales tax revenues for the year represent the actual sales tax receipts for the second and third quarters of the calendar year (up 2.5 percent and down 0.4 percent respectively), as well as the first two advances of the city's fourth calendar quarter of 2016 sales tax revenues. Advances are based on prior year activity adjusted by either a positive or negative growth factor, and are not a true indicator of the current economy. The large increase to date is due to a timing difference. In the prior fiscal year, the State of California's "Triple Flip" was still in effect, and the city was only receiving 75 percent of the sales taxes due for each advance.

For sales occurring in the third calendar quarter of 2016 (the most recent data available), key gains were seen in restaurants, chemical products, electronic equipment and energy sales. During the same period, key declines were seen in building materials-wholesale, service stations, office equipment and furniture/appliance stores. The largest economic segments in the city continue to be new auto sales, restaurants, apparel stores, department stores and miscellaneous retail. Together, they generate 70 percent of the city's sales tax revenues.



Transient Occupancy Tax (\$13.6 million) – The city's third highest General Fund revenue source on an annual basis is Transient Occupancy Tax (TOT or hotel tax), estimated at \$20.8 million for the current fiscal year. A tax of 10 percent of the rent amount is collected on all occupancies less than 30 days (transient) in duration. TOT collected for the first seven months of the fiscal year reflect an increase of \$675,000, 5 percent more than the previous year. Higher room rates throughout most of the city's hotels and an increase in available rooms accounted for most of the increase. Year-to-date TOT figures represent taxes collected on hotel receipts through the month of December 2016.

Currently, there are 4,372 hotel rooms and 1,133 vacation rentals in the city. The average occupancy of hotel rooms over the most recent 12 months has been 68 percent, two percentage points less than last year's average.



Development Related Revenues (\$3 million) – Development related revenues, which include building permits, planning fees, building department fees, and engineering fees, reflect a significant increase for the first seven months of the fiscal year.

Development related fees are paid by developers to cover the cost of reviewing and monitoring development activities, such as plan checks and inspections. Engineering plan check fees are one of the first fees paid during the initial stages of development. Some of the activity in January included residential development at Robertson Ranch. Industrial/commercial building activity included the continued

expansion of ViaSat, two shell buildings in the Carlsbad Oaks industrial park, expansion of the Sheraton hotel, and the new Westin and Legoland hotels.

One source of development related revenue is building permits, which are up 118 percent compared to last fiscal year. The increase in building permit revenue is derived from the combination of an increase in the valuation of new construction, an increase in residential permitting activity, partially offset by a small decrease in commercial/industrial permitting activity to date. The year-to-date valuation of new construction in the current fiscal year is \$215.4 million, while it was \$117.5 million in the previous fiscal year, an 83.2 percent increase. In January, Carlsbad issued building permits for 45 residential dwelling units, a decrease from 90 residential dwelling units permitted in December. In the northeast quadrant, 29 single-family homes will be constructed by Toll Brothers at Robertson Ranch; four as part of Phase 7 at The Vistas, twelve as part of Phases 3 and 4 at The Terraces, seven as part of Phase 4 at The Bluffs, and six as part of Phase 5 at The Ridge. Also, five condominiums will be constructed, three as part of Blue Sage and two as part of Acacia at The Preserve. In the northwest quadrant, two second-dwelling units will be constructed. Also, six townhomes will be constructed on State Street. In the southwest quadrant, three single-family homes be constructed. For the current fiscal year, 572 residential permits have been issued, as compared to 71 permits issued during the same period last year.

During the month of January, one commercial permit was issued for 2,281 square feet at The Preserve at Quarry Creek. Year-to-date, there has been 224,860 square feet of commercial/industrial permits issued, as compared to 280,403 square feet of commercial/industrial permits issued during the same period last year.



Income from Investments and Property (\$2.3 million) – For the first seven months of the fiscal year, income from investments and property is down \$116,000 compared to the previous fiscal year.

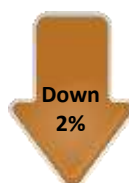
Interest income is down \$129,000 for the year due to the combination of a one-time receipt from the Department of Finance (DOF) last fiscal year for interest earned on unpaid mandated costs going back to 2004, a 3.18 percent increase in the average daily cash balance combined with a 4.35 percent increase in the average yield on the portfolio for the year (an increase in the yield from 1.144 percent last fiscal year to 1.194 percent in the current fiscal year).

Income from property sales and rentals is up by \$13,000 for the year, primarily due an increase in facility and park rentals, partially offset by the sale of used park maintenance equipment in the prior fiscal.



Business License Tax (\$2.2 million) – All businesses doing business in the City of Carlsbad are required to have a valid business license. Business license revenue is estimated at \$4.5 million for the current fiscal year. Business license revenues are up \$18,000 or one percent more than the previous fiscal year. This increase would have been larger, however, the city has recently implemented a new business license system which has impacted the processing of business licenses (both new and renewals).

There are currently 10,261 licensed businesses operating within the city, 576 more than the prior year. The majority of taxed businesses (6,904 businesses) are located in Carlsbad, with 2,678 of these businesses home-based.



Franchise Taxes (\$2.1 million) – Franchise taxes are generated from public utility sources, such as San Diego Gas & Electric (SDG&E), trash collection franchises, fiber optic antenna systems and cable franchises conducting business within city limits. Franchise tax revenue is estimated at \$5.7 million for the current fiscal year. Year-to-date franchise taxes are \$36,000 lower than the same period last year.

Cable television franchise revenues (Time Warner and AT&T) are down by \$81,000 due to a decrease in the number of paid subscription services (premium video, equipment rental, on-demand, and programming services). An increase in

trash collection revenue of \$29,000 is due to more commercial accounts coming online from new development activity within the city, more payments being made on time, and the timing of cash receipts from bi-monthly billings. A timing difference in the receipt of the quarterly fiber optic antenna system franchise payments has created a positive \$16,000 variance in the current fiscal year.

Approximately 43 percent of the total franchise tax revenue anticipated for the year will be collected from SDG&E during the month of April 2017.



Recreation Fees (\$2 million) – Recreation fees are generated through instructional classes, camps, youth and adult sports, special events, parent participation preschool, senior programs, and various aquatic programs. Recreation revenues are up by seven percent compared to last fiscal year at this time. This increase is primarily due to higher participation in the instructional classes.



Interdepartmental Charges (\$2 million) – Interdepartmental charges are \$57,000, or three percent, higher than last year. These charges are generated through engineering services charged to capital projects (up six percent, or \$43,000) due to a focus on the acceleration of completing projects in the city's Capital Improvement Program; reimbursed work from other funds (up 100 percent, or \$14,000) due to timing differences; and miscellaneous interdepartmental expenses charged to funds outside the General Fund for services performed by departments within the General Fund (flat).



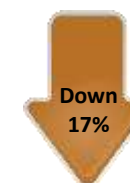
Ambulance Fees (\$1.4 million) – The city bills any individual who is transported in one of the city's ambulances. Through January 2017, receipts from ambulance fees are up nine percent compared to last fiscal year. An increase in the number of transports is the major contributor to this variance. The number of billable transported patients for the first seven months of Fiscal Year 2016-17 (2,657) versus Fiscal Year 2015-16 (2,460) has increased moderately. Additionally, there has been a reduction in bad debt in the current period when compared to the same period last year, resulting in higher net revenue.



Other Licenses and Permits (\$836,000) – Other licenses and permits consist of plumbing, electrical, mechanical, right-of-way, grading, conditional land use, lagoon, and other miscellaneous permit revenues. These permits usually increase/decrease along with increases/decreases in development activity.



Other Revenue Sources (\$732,000) – Other revenue sources have increased by \$295 and include revenues received by the city to offset the costs of special studies or projects for developers; reimbursements for damage done to city streets, rights-of-way, and other city-owned property; donations; reimbursement from the Gas Tax Fund for traffic signal maintenance; and miscellaneous reimbursed expenses and refunds of prior year fees. The increase to date represents an increase in reimbursements received by the General Fund for the administrative costs of managing deposits being held for developers, reimbursements received by the city for the administrative costs associated with refunding two debt issues, and additional revenues received for damage done to city-owned property. These increases were partially offset by a reduction in reimbursements received for the costs of special studies or projects for developers as compared to last fiscal year.



Transfer Taxes (\$586,000) – When real property is sold, the County Assessor's Office charges a transfer tax. The transfer tax rate in San Diego County is \$1.10 per thousand multiplied by the selling price of the property. The city receives 50 percent of the transfer tax charged for sales within the City of Carlsbad. Year-to-date revenues have decreased

moderately. The city saw the sale of several large commercial properties in the prior fiscal year, including the sale of the former Westfield Mall, leading to this year's decrease.



Other Charges or Fees (\$546,000) – Other charges and fees are generated through the sale of city documents, such as staff reports, blueprints and copies; general fees collected for false alarms, easements and agreements, weed abatement and kiosk signs; audio/visual rental fees; and general services, such as mutual aid response, mall police services, emergency response services, reports, etc. For the first seven months of the fiscal year, a large increase in mutual aid response reimbursements (Pala fire, Border 3 fire – east of San Diego, Erskine and Deer fires in Kern County, and the Gopher Canyon fire) has led to a \$214,000 increase year-to-date.



Fines and Forfeitures (\$416,000) – Fines and forfeitures represent fees collected for code violations, parking citations, overdue fines, and returned checks. The city recognizes revenues when the citizen pays the fine or forfeiture, as opposed to when the fine is imposed. The decrease to date represents an increase in parking citations completely offset by a decrease in local code violations/fines, moving violations and overdue fines.



Other Intergovernmental Revenues (\$314,000) – Other intergovernmental revenues include miscellaneous receipts received from the state or federal governments, as well as local school districts. Included in the \$314,000 received this year are Police Officer Standard Training (POST) reimbursements, state mandated cost reimbursements, Department of Justice vice/narcotics overtime reimbursements, a sea level rise study grant, senior nutrition grants, an adult learning grant, and solar rebates from the Center for Sustainable Energy (Alga Norte Park solar project). The decrease to date is a result of school resource officer reimbursements and OES reimbursements received for the 2014 fires received last fiscal year at this time.



Homeowners' Exemptions (\$174,000) – When property taxes are calculated on a particular parcel of property, the first \$7,000 of property value is excluded from the property tax calculation. The state then reimburses the city for this mandated exemption. This reimbursement is entitled Homeowners' Exemption revenue and is shown under intergovernmental revenues.



Vehicle License Fees (\$51,000) – Although the city is no longer receiving vehicle license fee (VLF) revenues from the state, the revenues received in the current fiscal year represent a retroactive clean-up payment received by the city for prior fiscal years.

Expenditures

Total General Fund expenditures and encumbrances through the month of January 2017 are \$109.6 million, compared to \$92 million at the same time last year. This leaves \$82.1 million, or 42.8 percent, available through the fiscal year ending June 30, 2017. If funds were spent in the same proportion as the previous year, the General Fund would have 45 percent available. Excluding the transfers out, contingencies, and non-departmental charges, the percentage available at January 31, 2017 is 43.6 percent, slightly more than the 42.4 percent available at January 31, 2016.

The adopted General Fund budget for Fiscal Year 2016-17 increased by \$21.3 million due to the following factors:

- Increased personnel costs:

- \$2.7 million in additional salary costs associated with previously negotiated wage increases as well as the net addition of 2.0 full-time staff, 3.0 limited-term staff and 3.25 part-time staff
- \$2.2 million in additional retirement costs due to PERS rate increases and higher salaries
- Increased health insurance and workers' compensation rates
- Part-time employee salary increases
- Increased maintenance and operations costs (increase of \$2.9 million):
 - Increased information technology charges to address current and future funding requirements
 - General inflationary adjustments
 - Costs associated with succession planning
 - Expenditure enhancements (police body cameras; Coastal Trolley Study; implementation of the Climate Action Plan; additional vehicles for Community Service Officers; expansion of the youth basketball program; mobile library services from a Library Book Bike; a lobbyist and community outreach for the Village Double Tracking project; a parking study; etc.)
 - "Out-of-block" increases (internal service fund charges, election expenses, ambulance collection fees, bank fees, animal control, weed abatement, plan check services, recreation class instructors, land management and street lighting costs)
- Decreased capital outlay costs of \$1.5 million
- Increased transfers out of the General Fund:
 - A one-time \$14.8 million transfer to the city's Golf Course Fund to pay off the outstanding balance of the Golf Course bonds

Council Contingency

The City Council has allocated \$1.5 million out of the General Fund budget for unanticipated emergencies or unforeseen program needs. As of January 31, 2017, \$28,494 has been authorized out of the contingency account as shown in the chart below.

CONTINGENCY ACCOUNT USE OF FUNDS			
EXPLANATION	AMOUNT	DATE	RESOLUTION NUMBER
ADOPTED BUDGET	\$1,500,000		
USES:			
Special Events Grant for the Carlsbad Grand Prix	(5,000)	07/12/2016	City Manager
Community Spirit Grant for the Carlsbad High School Lancer Day Parade (In-Kind Services)	(1,685)	11/07/2016	City Manager
Special Events Grant for the Carlsbad Christmas Bureau (In-Kind Services)	(1,825)	12/01/2016	City Manager
Community Spirit Grant for the Veterans' Day Remembrance Parade (In-Kind Services)	(121)	12/01/2016	City Manager
Winning Teams Grant for the La Costa Canyon Mavericks Pee Wee Cheer Team	(5,000)	12/12/2016	City Manager
Winning Teams Grant for the La Costa Canyon Mavericks Junior Pee Wee Cheer Team	(5,000)	12/12/2016	City Manager
Winning Teams Grant for the La Costa Canyon Pop Warner Junior Midget Mavericks Cheer Team	(5,000)	12/12/2016	City Manager
Winning Teams Grant for the Carlsbad High School Lancer Dancers Varsity Dance Team	(4,864)	01/06/2017	City Manager
TOTAL USES	<u>(28,494)</u>		
AVAILABLE BALANCE	<u><u>\$1,471,506</u></u>		

Detailed schedules of General Fund revenues and expenditures are provided on the following pages.

GENERAL FUND REVENUE COMPARISON					
	EXPECTED BUDGET AS OF 01/31/17	ACTUAL FY 2016 AS OF 01/31/16	ACTUAL FY 2016 AS OF 01/31/17	CHANGE FROM YTD 2016 TO YTD 2017	PERCENT CHANGE
TAXES					
PROPERTY TAX	\$33,247,402	\$32,254,382	\$34,853,696	\$2,599,314	8%
SALES TAX	15,583,928	16,067,557	19,862,924	3,795,367	24%
TRANSIENT OCCUPANCY TAX	12,872,271	12,948,425	13,623,922	675,497	5%
FRANCHISE TAX	2,129,834	2,105,283	2,069,295	(35,988)	-2%
BUSINESS LICENSE TAX	2,058,027	2,217,886	2,235,564	17,678	1%
TRANSFER TAX	510,717	709,773	586,049	(123,724)	-17%
TOTAL TAXES	66,402,179	66,303,306	73,231,450	6,928,144	10%
INTERGOVERNMENTAL					
VEHICLE LICENSE FEES	0	44,647	50,591	5,944	13%
HOMEOWNERS EXEMPTIONS	181,000	174,458	174,099	(359)	0%
OTHER	444,685	372,897	314,459	(58,438)	-16%
TOTAL INTERGOVERNMENTAL	625,685	592,002	539,149	(52,853)	-9%
LICENSES AND PERMITS					
BUILDING PERMITS	649,584	537,761	1,173,739	635,978	118%
OTHER LICENSES & PERMITS	444,222	637,765	836,272	198,507	31%
TOTAL LICENSES & PERMITS	1,093,806	1,175,526	2,010,011	834,485	71%
CHARGES FOR SERVICES					
PLANNING FEES	407,048	405,673	632,270	226,597	56%
BUILDING DEPARTMENT FEES	604,988	607,007	457,846	(149,161)	-25%
ENGINEERING FEES	773,309	738,788	764,392	25,604	3%
AMBULANCE FEES	1,341,342	1,285,087	1,399,900	114,813	9%
RECREATION FEES	1,877,958	1,882,496	2,019,585	137,089	7%
OTHER CHARGES OR FEES	248,290	332,262	546,458	214,196	64%
TOTAL CHARGES FOR SERVICES	5,252,937	5,251,313	5,820,451	569,138	11%
FINES AND FORFEITURES	460,945	485,468	415,747	(69,721)	-14%
INCOME FROM INVESTMENTS & PROPERTY	2,193,715	2,370,148	2,254,622	(115,526)	-5%
INTERDEPARTMENTAL CHARGES	1,786,870	1,901,886	1,958,636	56,750	3%
OTHER REVENUE SOURCES	532,689	731,341	731,636	295	0%
TRANSFERS IN	10,000	10,000	10,000	0	0%
TOTAL GENERAL FUND	\$78,358,825	\$78,820,990	\$86,971,702	\$8,150,712	10%
(1)					
(1) Calculated General Fund revenues are 11% above estimates as of January 31, 2017.					

GENERAL FUND EXPENDITURE STATUS BY DEPARTMENT				
DEPT DESCRIPTION	TOTAL BUDGET FY 2016-17	AS OF 01/31/17		
		AMOUNT COMMITTED (b)	AVAILABLE BALANCE	% AVAILABLE (c)
POLICY/LEADERSHIP GROUP				
CITY COUNCIL	\$532,924	\$245,356	\$287,568	54.0%
CITY MANAGER	2,618,841	1,278,005	1,340,836	51.2%
COMMUNITY OUTREACH AND ENGAGEMENT	2,147,204	1,238,788	908,416	42.3%
CITY CLERK AND RECORDS MANAGEMENT	1,205,177	601,250	603,927	50.1%
CITY ATTORNEY	1,664,142	857,261	806,881	48.5%
CITY TREASURER	255,515	125,554	129,961	50.9%
TOTAL POLICY/LEADERSHIP	8,423,803	4,346,214	4,077,589	48.4%
ADMINISTRATIVE SERVICES				
FINANCE	5,455,734	2,865,374	2,590,360	47.5%
HUMAN RESOURCES	3,847,351	2,066,460	1,780,891	46.3%
TOTAL INTERNAL SERVICES	9,303,085	4,931,834	4,371,251	47.0%
PUBLIC SAFETY				
POLICE	37,141,722	20,482,238	16,659,484	44.9%
FIRE	23,492,112	14,891,260	8,600,852	36.6%
TOTAL PUBLIC SAFETY	60,633,834	35,373,498	25,260,336	41.7%
COMMUNITY DEVELOPMENT				
COMMUNITY AND ECONOMIC DEVELOPMENT	11,671,161	6,608,819	5,062,342	43.4%
HOUSING AND NEIGHBORHOOD SERVICES	1,254,355	796,740	457,615	36.5%
TOTAL COMMUNITY DEVELOPMENT	12,925,516	7,405,559	5,519,957	42.7%
COMMUNITY SERVICES				
PARKS AND RECREATION	17,374,127	10,130,448	7,243,679	41.7%
LIBRARY AND CULTURAL ARTS	14,214,715	7,572,631	6,642,084	46.7%
TOTAL COMMUNITY SERVICES	31,588,842	17,703,079	13,885,763	44.0%
PUBLIC WORKS				
PUBLIC WORKS ADMINISTRATION	2,840,217	1,187,379	1,652,838	58.2%
ENVIRONMENTAL MANAGEMENT	867,495	367,794	499,701	57.6%
GENERAL SERVICES	10,687,482	6,339,035	4,348,447	40.7%
TRANSPORTATION	7,408,637	3,995,502	3,413,135	46.1%
TOTAL PUBLIC WORKS	21,803,831	11,889,710	9,914,121	45.5%
NON-DEPARTMENTAL & CONTINGENCY				
OTHER NON-DEPARTMENTAL (a)	19,111,819	1,476,888	17,634,931	92.3%
TRANSFERS OUT	26,495,100	26,495,100	0	0.0%
CONTINGENCY	1,471,506	0	1,471,506	100.0%
TOTAL NON-DEPT & CONTINGENCY	47,078,425	27,971,988	19,106,437	40.6%
TOTAL GENERAL FUND	\$191,757,336	\$109,621,882	\$82,135,454	42.8%
(a) Other non-departmental includes technology innovation, property tax administration fees, assessment district administration, citywide litigation expenses, 2014 citywide fires, and other items not attributed to a specific department.				
(b) Total committed includes expenditures and encumbrances.				
(c) Amount available would be 45% if funds were spent in the same proportion as the previous year.				

Water Enterprise

WATER OPERATIONS FUND					
JANUARY 31, 2017					
	BUDGET FY 2016-17	YTD (*) 01/31/2016	YTD (*) 01/31/2017	CHANGE FROM YTD 2015-16 TO YTD 2016-17	PERCENT CHANGE
REVENUES:					
WATER DELIVERY	\$ 34,400,000	\$ 19,412,767	\$ 22,322,478	\$ 2,909,711	15.0%
MISC. SERVICE CHARGES	278,400	175,583	176,775	1,192	0.7%
PROPERTY TAXES	2,935,200	1,848,802	1,996,008	147,206	8.0%
FINES, FORFEITURES & PENALTIES	261,500	160,136	161,335	1,199	0.7%
OTHER REVENUES	527,250	622,700	1,126,568	503,868	80.9%
TOTAL OPERATING REVENUE	38,402,350	22,219,988	25,783,164	3,563,176	16.0%
EXPENSES:					
STAFFING	3,909,478	2,099,635	2,130,800	31,165	1.5%
INTERDEPARTMENTAL SERVICES	2,289,336	1,294,469	1,294,421	(48)	0.0%
PURCHASED WATER	20,000,000	9,135,839	12,371,228	3,235,389	35.4%
MWD/CWA FIXED CHARGES	6,800,000	3,552,707	3,946,496	393,789	11.1%
OUTSIDE SERVICES/MAINTENANCE	1,210,120	295,366	202,449	(92,917)	-31.5%
DEPRECIATION/REPLACEMENT	3,840,000	2,117,500	2,240,000	122,500	5.8%
CAPITAL OUTLAY	0	18,082	3,839	(14,243)	-78.8%
MISCELLANEOUS EXPENSES	1,115,684	408,701	460,326	51,625	12.6%
TOTAL OPERATING EXPENSES	39,164,618	18,922,299	22,649,559	3,727,260	19.7%
OPERATING INCOME/(LOSS)	\$ (762,268)	\$ 3,297,689	\$ 3,133,605	\$ (164,084)	-5.0%

(*) Adjusted to reflect timing differences for water purchases and depreciation.

Revenues



- The increase in water delivery revenues is the result of an average 5.25 percent increase in water rates charged to our customers (water sales and delivery charges) that went into effect in January 2016, coupled with a 11 percent increase in water sales during the first seven months of the fiscal year due to less restrictive water usage constraints.
- An increase in assessed values account for the higher property tax revenues.
- The increase in other revenues is primarily the result of Poseidon's payment on a reimbursement agreement for third party consultant costs in connection with the construction of the desalinated water pipeline.

Expenses



- For Fiscal Year 2016-17, a total of 2.25 full-time positions have been reallocated from other programs to the Water Enterprise to better reflect each programs' workload.
- A 7.7 percent rate increase in the variable cost of water purchased from the San Diego County Water Authority (SDCWA) coupled with a 30 percent increase in the amount of water purchased which includes the purchase of more costly desalinated water directly from the desalination plant as well as replenishing stored water reserves, represent the primary drivers in this variance.
- Decreased water conservation and related costs have led to lower outside services/maintenance expenses.
- The prior year replacement of the SCADA system servers is the primary variance driver for capital outlay expenses.
- Increases in meters and fittings are the largest factors in the miscellaneous expenses variance.

Outlook

The operating results for the Enterprise currently reflect a year-to-date gain of \$3.1 million. Greater sales have offset the higher cost of the more expensive purchased water, better than anticipated. Based on activity to date, and the projected use of reserves for rate stabilization, it is projected that the Enterprise will have surplus between \$1 and \$1.5 million by the end of the fiscal year.

Wastewater Enterprise

WASTEWATER OPERATIONS FUND JANUARY 31, 2017					
	BUDGET FY 2016-17	YTD (*) 01/31/2016	YTD (*) 01/31/2017	CHANGE FROM YTD 2015-16 TO YTD 2016-17	PERCENT CHANGE
REVENUES:					
CHARGES FOR CURRENT SERVICES	12,435,000	7,295,724	8,014,191	718,467	9.8%
INTEREST	48,600	37,022	58,859	21,837	59.0%
OTHER REVENUES	303,000	179,859	150,406	(29,453)	-16.4%
TOTAL OPERATING REVENUE	12,786,600	7,512,605	8,223,456	710,851	9.5%
EXPENSES:					
STAFFING	2,091,315	1,194,306	1,168,546	(25,760)	-2.2%
INTERDEPARTMENTAL SERVICES	1,297,236	735,202	733,430	(1,772)	-0.2%
ENCINA PLANT SERVICES	3,709,179	1,953,597	1,987,150	33,553	1.7%
OUTSIDE SERVICES/MAINTENANCE	626,011	216,080	141,487	(74,593)	-34.5%
DEPRECIATION/REPLACEMENT	4,355,000	2,464,583	2,540,417	75,834	3.1%
CAPITAL OUTLAY	0	0	3,277	3,277	100.0%
MISCELLANEOUS EXPENSES	685,816	261,128	273,341	12,213	4.7%
TOTAL OPERATING EXPENSES	12,764,557	6,824,896	6,847,648	22,752	0.3%
OPERATING INCOME/LOSS	22,043	687,709	1,375,808	688,099	100.1%
(*) Adjusted to reflect timing differences for Encina quarterly invoices and depreciation.					

Revenues



- The increase in charges for current services is the result of rate increases that went into effect in January 2016 coupled with decreased conservation from the Enterprise's volumetric based customers.
- Cash balances in the fund have increased from last year, combined with an increase in the average yield on the portfolio for the year, have impacted interest earnings for the year.
- The decrease in other revenues is driven primarily by the engineers within the Enterprise charging less of their time to capital improvement projects.

Expenses



- For Fiscal Year 2016-17, a total of 2.9 full-time positions have been reallocated from the Wastewater Enterprise to other programs to better reflect each program's workload.
- Encina plant services to date are a combination of actuals and an estimate of the annual Encina expense prorated on a monthly basis.
- Decreases in outside services/maintenance are primarily the result of prior year expenses related to a cost of service study.
- Depreciation expenses have been increasing on an annual basis as the Enterprise acquires new equipment/infrastructure and replaces old equipment/infrastructure.
- The purchase of a hydraulic sewage cleaning tool and the replacement of a computer account for the capital outlay expenses to date.
- Increased purchases of safety equipment, parts, and chemicals are the primary drivers of the variance in miscellaneous expenses.

Outlook

The operating results for the Enterprise currently reflect a year-to-date net income of \$1.4 million. Based on activity to date, it is anticipated that the Enterprise will end the year with operating income over operating expenses around \$1 million. This is due to projected higher revenues in the second half of the fiscal year from previous rate increases and decreased conservation by the Enterprise's volumetric customers as well as projected lower than budgeted expenses.